

111TH CONGRESS  
1ST SESSION

# S. 741

To amend the Internal Revenue Code of 1986 to impose a flat tax only on individual taxable earned income and business taxable income, and for other purposes.

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## IN THE SENATE OF THE UNITED STATES

MARCH 30, 2009

Mr. SPECTER introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to impose a flat tax only on individual taxable earned income and business taxable income, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE; TABLE OF CONTENTS; AMEND-**  
4 **MENT OF 1986 CODE.**

5 (a) SHORT TITLE.—This Act may be cited as the  
6 “Flat Tax Act of 2009”.

7 (b) TABLE OF CONTENTS.—The table of contents for  
8 this Act is as follows:

Sec. 1. Short title; table of contents; amendment of 1986 Code.

- Sec. 2. Flat tax on individual taxable earned income and business taxable income.  
 Sec. 3. Repeal of estate and gift taxes.  
 Sec. 4. Additional repeals.  
 Sec. 5. Effective dates.

1 (c) AMENDMENT OF 1986 CODE.—Except as other-  
 2 wise expressly provided, whenever in this Act an amend-  
 3 ment or repeal is expressed in terms of an amendment  
 4 to, or repeal of, a section or other provision, the reference  
 5 shall be considered to be made to a section or other provi-  
 6 sion of the Internal Revenue Code of 1986.

7 **SEC. 2. FLAT TAX ON INDIVIDUAL TAXABLE EARNED IN-**  
 8 **COME AND BUSINESS TAXABLE INCOME.**

9 (a) IN GENERAL.—Subchapter A of chapter 1 of sub-  
 10 title A is amended to read as follows:

11 **“Subchapter A—Determination of Tax**  
 12 **Liability**

“PART I. TAX ON INDIVIDUALS.

“PART II. TAX ON BUSINESS ACTIVITIES.

13 **“PART I—TAX ON INDIVIDUALS**

- “Sec. 1. Tax imposed.  
 “Sec. 2. Standard deduction.  
 “Sec. 3. Deduction for cash charitable contributions.  
 “Sec. 4. Deduction for home acquisition indebtedness.  
 “Sec. 5. Definitions and special rules.  
 “Sec. 6. Dependent defined.  
 “Sec. 7. Inflation adjustment.

14 **“SEC. 1. TAX IMPOSED.**

15 “(a) IMPOSITION OF TAX.—There is hereby imposed  
 16 on every individual a tax equal to 20 percent of the taxable  
 17 earned income of such individual.

1       “(b) TAXABLE EARNED INCOME.—For purposes of  
 2 this section, the term ‘taxable earned income’ means the  
 3 excess (if any) of—

4               “(1) the earned income received or accrued dur-  
 5 ing the taxable year, over

6               “(2) the sum of—

7                       “(A) the standard deduction,

8                       “(B) the deduction for cash charitable con-  
 9 tributions, and

10                      “(C) the deduction for home acquisition in-  
 11 debtedness, for such taxable year.

12       “(c) EARNED INCOME.—For purposes of this sec-  
 13 tion—

14               “(1) IN GENERAL.—The term ‘earned income’  
 15 means wages, salaries, or professional fees, and  
 16 other amounts received from sources within the  
 17 United States as compensation for personal services  
 18 actually rendered, but does not include that part of  
 19 compensation derived by the taxpayer for personal  
 20 services rendered by the taxpayer to a corporation  
 21 which represents a distribution of earnings or profits  
 22 rather than a reasonable allowance as compensation  
 23 for the personal services actually rendered.

24               “(2) TAXPAYER ENGAGED IN TRADE OR BUSI-  
 25 NESS.—In the case of a taxpayer engaged in a trade

1 or business in which both personal services and cap-  
 2 ital are material income-producing factors, under  
 3 regulations prescribed by the Secretary, a reasonable  
 4 allowance as compensation for the personal services  
 5 rendered by the taxpayer, not in excess of 30 per-  
 6 cent of the taxpayer's share of the net profits of  
 7 such trade or business, shall be considered as earned  
 8 income.

9 **“SEC. 2. STANDARD DEDUCTION.**

10 “(a) IN GENERAL.—For purposes of this subtitle, the  
 11 term ‘standard deduction’ means the sum of—

12 “(1) the basic standard deduction, plus

13 “(2) the additional standard deduction.

14 “(b) BASIC STANDARD DEDUCTION.—For purposes  
 15 of subsection (a), the basic standard deduction is—

16 “(1) 200 percent of the dollar amount in effect  
 17 under paragraph (3) of the taxable year in the case  
 18 of—

19 “(A) a joint return, or

20 “(B) a surviving spouse (as defined in sec-  
 21 tion 5(a)),

22 “(2) \$18,750 in the case of a head of household  
 23 (as defined in section 5(b)), or

24 “(3) \$12,500 in any other case.

1 “(c) ADDITIONAL STANDARD DEDUCTION.—For pur-  
 2 poses of subsection (a), the additional standard deduction  
 3 is \$6,250 for each dependent (as defined in section 6)—

4 “(1) whose earned income for the calendar year  
 5 in which the taxable year of the taxpayer begins is  
 6 less than the basic standard deduction specified in  
 7 subsection (b)(3), or

8 “(2) who is a child of the taxpayer and who—

9 “(A) has not attained the age of 19 at the  
 10 close of the calendar year in which the taxable  
 11 year of the taxpayer begins, or

12 “(B) is a student who has not attained the  
 13 age of 24 at the close of such calendar year.

14 **“SEC. 3. DEDUCTION FOR CASH CHARITABLE CONTRIBU-**  
 15 **TIONS.**

16 “(a) GENERAL RULE.—For purposes of this part,  
 17 there shall be allowed as a deduction any charitable con-  
 18 tribution (as defined in subsection (b)) not to exceed  
 19 \$3,125 (50 percent of such amount in the case of a mar-  
 20 ried individual filing a separate return), payment of which  
 21 is made within the taxable year.

22 “(b) CHARITABLE CONTRIBUTION DEFINED.—For  
 23 purposes of this section, the term ‘charitable contribution’  
 24 means a contribution or gift of cash or its equivalent to  
 25 or for the use of the following:

1           “(1) A State, a possession of the United States,  
2           or any political subdivision of any of the foregoing,  
3           or the United States or the District of Columbia,  
4           but only if the contribution or gift is made for exclu-  
5           sively public purposes.

6           “(2) A corporation, trust, or community chest,  
7           fund, or foundation—

8                   “(A) created or organized in the United  
9                   States or in any possession thereof, or under  
10                  the law of the United States, any State, the  
11                  District of Columbia, or any possession of the  
12                  United States,

13                   “(B) organized and operated exclusively  
14                   for religious, charitable, scientific, literary, or  
15                   educational purposes, or to foster national or  
16                   international amateur sports competition (but  
17                   only if no part of its activities involve the provi-  
18                   sion of athletic facilities or equipment), or for  
19                   the prevention of cruelty to children or animals,

20                   “(C) no part of the net earnings of which  
21                   inures to the benefit of any private shareholder  
22                   or individual, and

23                   “(D) which is not disqualified for tax ex-  
24                   emption under section 501(c)(3) by reason of  
25                   attempting to influence legislation, and which

1           does not participate in, or intervene in (includ-  
 2           ing the publishing or distributing of state-  
 3           ments), any political campaign on behalf of (or  
 4           in opposition to) any candidate for public office.

5           A contribution or gift by a corporation to a trust,  
 6           chest, fund, or foundation shall be deductible by rea-  
 7           son of this paragraph only if it is to be used within  
 8           the United States or any of its possessions exclu-  
 9           sively for purposes specified in subparagraph (B).  
 10          Rules similar to the rules of section 501(j) shall  
 11          apply for purposes of this paragraph.

12           “(3) A post or organization of war veterans, or  
 13           an auxiliary unit or society of, or trust or foundation  
 14           for, any such post or organization—

15           “(A) organized in the United States or any  
 16           of its possessions, and

17           “(B) no part of the net earnings of which  
 18           inures to the benefit of any private shareholder  
 19           or individual.

20           “(4) In the case of a contribution or gift by an  
 21           individual, a domestic fraternal society, order, or as-  
 22           sociation, operating under the lodge system, but only  
 23           if such contribution or gift is to be used exclusively  
 24           for religious, charitable, scientific, literary, or edu-

1        cational purposes, or for the prevention of cruelty to  
 2        children or animals.

3            “(5) A cemetery company owned and operated  
 4        exclusively for the benefit of its members, or any  
 5        corporation chartered solely for burial purposes as a  
 6        cemetery corporation and not permitted by its char-  
 7        ter to engage in any business not necessarily inci-  
 8        dent to that purpose, if such company or corporation  
 9        is not operated for profit and no part of the net  
 10       earnings of such company or corporation inures to  
 11       the benefit of any private shareholder or individual.  
 12 For purposes of this section, the term ‘charitable contribu-  
 13 tion’ also means an amount treated under subsection (d)  
 14 as paid for the use of an organization described in para-  
 15 graph (2), (3), or (4).

16        “(c) DISALLOWANCE OF DEDUCTION IN CERTAIN  
 17 CASES AND SPECIAL RULES.—

18            “(1) SUBSTANTIATION REQUIREMENT FOR CER-  
 19 TAIN CONTRIBUTIONS.—

20            “(A) GENERAL RULE.—No deduction shall  
 21        be allowed under subsection (a) for any con-  
 22        tribution of \$250 or more unless the taxpayer  
 23        substantiates the contribution by a contempora-  
 24        neous written acknowledgment of the contribu-



tion by the donee organization that meets the requirements of subparagraph (B).

“(B) CONTENT OF ACKNOWLEDGMENT.—

An acknowledgment meets the requirements of this subparagraph if it includes the following information:

“(i) The amount of cash contributed.

“(ii) Whether the donee organization provided any goods or services in consideration, in whole or in part, for any contribution described in clause (i).

“(iii) A description and good faith estimate of the value of any goods or services referred to in clause (ii) or, if such goods or services consist solely of intangible religious benefits, a statement to that effect.

For purposes of this subparagraph, the term ‘intangible religious benefit’ means any intangible religious benefit which is provided by an organization organized exclusively for religious purposes and which generally is not sold in a commercial transaction outside the donative context.

“(C) CONTEMPORANEOUS.—For purposes of subparagraph (A), an acknowledgment shall

1 be considered to be contemporaneous if the tax-  
 2 payer obtains the acknowledgment on or before  
 3 the earlier of—

4 “(i) the date on which the taxpayer  
 5 files a return for the taxable year in which  
 6 the contribution was made, or

7 “(ii) the due date (including exten-  
 8 sions) for filing such return.

9 “(D) SUBSTANTIATION NOT REQUIRED  
 10 FOR CONTRIBUTIONS REPORTED BY THE  
 11 DONEE ORGANIZATION.—Subparagraph (A)  
 12 shall not apply to a contribution if the donee  
 13 organization files a return, on such form and in  
 14 accordance with such regulations as the Sec-  
 15 retary may prescribe, which includes the infor-  
 16 mation described in subparagraph (B) with re-  
 17 spect to the contribution.

18 “(E) REGULATIONS.—The Secretary shall  
 19 prescribe such regulations as may be necessary  
 20 or appropriate to carry out the purposes of this  
 21 paragraph, including regulations that may pro-  
 22 vide that some or all of the requirements of this  
 23 paragraph do not apply in appropriate cases.

24 “(2) DENIAL OF DEDUCTION WHERE CON-  
 25 TRIBUTION FOR LOBBYING ACTIVITIES.—No deduc-

1       tion shall be allowed under this section for a con-  
 2       tribution to an organization which conducts activities  
 3       to which section 11(d)(2)(C)(i) applies on matters of  
 4       direct financial interest to the donor's trade or busi-  
 5       ness, if a principal purpose of the contribution was  
 6       to avoid Federal income tax by securing a deduction  
 7       for such activities under this section which would be  
 8       disallowed by reason of section 11(d)(2)(C) if the  
 9       donor had conducted such activities directly. No de-  
 10      duction shall be allowed under section 11(d) for any  
 11      amount for which a deduction is disallowed under  
 12      the preceding sentence.

13      “(d) AMOUNTS PAID TO MAINTAIN CERTAIN STU-  
 14      DENTS AS MEMBERS OF TAXPAYER'S HOUSEHOLD.—

15           “(1) IN GENERAL.—Subject to the limitations  
 16      provided by paragraph (2), amounts paid by the tax-  
 17      payer to maintain an individual (other than a de-  
 18      pendent, as defined in section 6, or a relative of the  
 19      taxpayer) as a member of such taxpayer's household  
 20      during the period that such individual is—

21           “(A) a member of the taxpayer's household  
 22      under a written agreement between the tax-  
 23      payer and an organization described in para-  
 24      graph (2), (3), or (4) of subsection (b) to imple-  
 25      ment a program of the organization to provide

1 educational opportunities for pupils or students  
2 in private homes, and

3 “(B) a full-time pupil or student in the  
4 twelfth or any lower grade at an educational or-  
5 ganization located in the United States which  
6 normally maintains a regular faculty and cur-  
7 riculum and normally has a regularly enrolled  
8 body of pupils or students in attendance at the  
9 place where its educational activities are regu-  
10 larly carried on, shall be treated as amounts  
11 paid for the use of the organization.

12 “(2) LIMITATIONS.—

13 “(A) AMOUNT.—Paragraph (1) shall apply  
14 to amounts paid within the taxable year only to  
15 the extent that such amounts do not exceed \$50  
16 multiplied by the number of full calendar  
17 months during the taxable year which fall with-  
18 in the period described in paragraph (1). For  
19 purposes of the preceding sentence, if 15 or  
20 more days of a calendar month fall within such  
21 period such month shall be considered as a full  
22 calendar month.

23 “(B) COMPENSATION OR REIMBURSE-  
24 MENT.—Paragraph (1) shall not apply to any  
25 amount paid by the taxpayer within the taxable

1           year if the taxpayer receives any money or  
2           other property as compensation or reimburse-  
3           ment for maintaining the individual in the tax-  
4           payer's household during the period described  
5           in paragraph (1).

6           “(3) RELATIVE DEFINED.—For purposes of  
7           paragraph (1), the term ‘relative of the taxpayer’  
8           means an individual who, with respect to the tax-  
9           payer, bears any of the relationships described in  
10          subparagraphs (A) through (G) of section 6(d)(2).

11          “(4) NO OTHER AMOUNT ALLOWED AS DEDUC-  
12          TION.—No deduction shall be allowed under sub-  
13          section (a) for any amount paid by a taxpayer to  
14          maintain an individual as a member of the tax-  
15          payer's household under a program described in  
16          paragraph (1)(A) except as provided in this sub-  
17          section.

18          “(e) DENIAL OF DEDUCTION FOR CERTAIN TRAVEL  
19          EXPENSES.—No deduction shall be allowed under this sec-  
20          tion for traveling expenses (including amounts expended  
21          for meals and lodging) while away from home, whether  
22          paid directly or by reimbursement, unless there is no sig-  
23          nificant element of personal pleasure, recreation, or vaca-  
24          tion in such travel.

1       “(f) DISALLOWANCE OF DEDUCTIONS IN CERTAIN  
 2 CASES.—For disallowance of deductions for contributions  
 3 to or for the use of Communist controlled organizations,  
 4 see section 11(a) of the Internal Security Act of 1950 (50  
 5 U.S.C. 790).

6       “(g) TREATMENT OF CERTAIN AMOUNTS PAID TO OR  
 7 FOR THE BENEFIT OF INSTITUTIONS OF HIGHER EDU-  
 8 CATION.—

9               “(1) IN GENERAL.—For purposes of this sec-  
 10 tion, 80 percent of any amount described in para-  
 11 graph (2) shall be treated as a charitable contribu-  
 12 tion.

13              “(2) AMOUNT DESCRIBED.—For purposes of  
 14 paragraph (1), an amount is described in this para-  
 15 graph if—

16                   “(A) the amount is paid by the taxpayer to  
 17 or for the benefit of an educational organiza-  
 18 tion—

19                           “(i) which is described in subsection  
 20 (d)(1)(B), and

21                           “(ii) which is an institution of higher  
 22 education (as defined in section 3304(f)),  
 23 and

24                   “(B) such amount would be allowable as a  
 25 deduction under this section but for the fact

1           that the taxpayer receives (directly or indi-  
2           rectly) as a result of paying such amount the  
3           right to purchase tickets for seating at an ath-  
4           letic event in an athletic stadium of such insti-  
5           tution.

6 If any portion of a payment is for the purchase of such  
7 tickets, such portion and the remaining portion (if any)  
8 of such payment shall be treated as separate amounts for  
9 purposes of this subsection.

10       “(h) OTHER CROSS REFERENCES.—

11           “(1) For treatment of certain organizations  
12       providing child care, see section 501(k).

13           “(2) For charitable contributions of partners,  
14       see section 702.

15           “(3) For treatment of gifts for benefit of or use  
16       in connection with the Naval Academy as gifts to or  
17       for the use of the United States, see section 6973  
18       of title 10, United States Code.

19           “(4) For treatment of gifts accepted by the  
20       Secretary of State, the Director of the International  
21       Communication Agency, or the Director of the  
22       United States International Development Coopera-  
23       tion Agency, as gifts to or for the use of the United  
24       States, see section 25 of the State Department Basic  
25       Authorities Act of 1956.

1           “(5) For treatment of gifts of money accepted  
 2           by the Attorney General for credit to the ‘Com-  
 3           missary Funds, Federal Prisons’ as gifts to or for  
 4           the use of the United States, see section 4043 of  
 5           title 18, United States Code.

6           “(6) For charitable contributions to or for the  
 7           use of Indian tribal governments (or subdivisions of  
 8           such governments), see section 7871.

9   **“SEC. 4. DEDUCTION FOR HOME ACQUISITION INDEBTED-**  
 10                   **NESS.**

11       “(a) GENERAL RULE.—For purposes of this part,  
 12       there shall be allowed as a deduction all qualified residence  
 13       interest paid or accrued within the taxable year.

14       “(b) QUALIFIED RESIDENCE INTEREST DEFINED.—  
 15       The term ‘qualified residence interest’ means any interest  
 16       which is paid or accrued during the taxable year on acqui-  
 17       sition indebtedness with respect to any qualified residence  
 18       of the taxpayer. For purposes of the preceding sentence,  
 19       the determination of whether any property is a qualified  
 20       residence of the taxpayer shall be made as of the time  
 21       the interest is accrued.

22       “(c) ACQUISITION INDEBTEDNESS.—

23           “(1) IN GENERAL.—The term ‘acquisition in-  
 24       debtedness’ means any indebtedness which—



1           “(A) is incurred in acquiring, constructing,  
2           or substantially improving any qualified resi-  
3           dence of the taxpayer, and

4           “(B) is secured by such residence.

5 Such term also includes any indebtedness secured by such  
6 residence resulting from the refinancing of indebtedness  
7 meeting the requirements of the preceding sentence (or  
8 this sentence); but only to the extent the amount of the  
9 indebtedness resulting from such refinancing does not ex-  
10 ceed the amount of the refinanced indebtedness.

11           “(2) DOLLAR LIMITATION.—The aggregate  
12 amount treated as acquisition indebtedness for any  
13 period shall not exceed \$125,000 (50 percent of such  
14 amount in the case of a married individual filing a  
15 separate return).

16           “(d) TREATMENT OF INDEBTEDNESS INCURRED ON  
17 OR BEFORE OCTOBER 13, 1987.—

18           “(1) IN GENERAL.—In the case of any pre-October  
19 tober 13, 1987, indebtedness—

20           “(A) such indebtedness shall be treated as  
21 acquisition indebtedness, and

22           “(B) the limitation of subsection (c)(2)  
23 shall not apply.

24           “(2) REDUCTION IN LIMITATION.—The limita-  
25 tion of subsection (c)(2) shall be reduced (but not

1 below zero) by the aggregate amount of outstanding  
2 pre-October 13, 1987, indebtedness.

3 “(3) PRE-OCTOBER 13, 1987, INDEBTEDNESS.—  
4 The term ‘pre-October 13, 1987, indebtedness’  
5 means—

6 “(A) any indebtedness which was incurred  
7 on or before October 13, 1987, and which was  
8 secured by a qualified residence on October 13,  
9 1987, and at all times thereafter before the in-  
10 terest is paid or accrued, or

11 “(B) any indebtedness which is secured by  
12 the qualified residence and was incurred after  
13 October 13, 1987, to refinance indebtedness de-  
14 scribed in subparagraph (A) (or refinanced in-  
15 debtedness meeting the requirements of this  
16 subparagraph) to the extent (immediately after  
17 the refinancing) the principal amount of the in-  
18 debtedness resulting from the refinancing does  
19 not exceed the principal amount of the refi-  
20 nanced indebtedness (immediately before the re-  
21 financing).

22 “(4) LIMITATION ON PERIOD OF REFI-  
23 NANCING.—Subparagraph (B) of paragraph (3)  
24 shall not apply to any indebtedness after—

1           “(A) the expiration of the term of the in-  
2           debtedness described in paragraph (3)(A), or

3           “(B) if the principal of the indebtedness  
4           described in paragraph (3)(A) is not amortized  
5           over its term, the expiration of the term of the  
6           first refinancing of such indebtedness (or if ear-  
7           lier, the date which is 30 years after the date  
8           of such first refinancing).

9           “(e) OTHER DEFINITIONS AND SPECIAL RULES.—  
10          For purposes of this section—

11           “(1) QUALIFIED RESIDENCE.—For purposes of  
12          this subsection—

13           “(A) IN GENERAL.—Except as provided in  
14           subparagraph (C), the term ‘qualified residence’  
15           means the principal residence of the taxpayer.

16           “(B) MARRIED INDIVIDUALS FILING SEPA-  
17           RATE RETURNS.—If a married couple does not  
18           file a joint return for the taxable year—

19           “(i) such couple shall be treated as 1  
20           taxpayer for purposes of subparagraph  
21           (A), and

22           “(ii) each individual shall be entitled  
23           to take into account  $\frac{1}{2}$  of the principal  
24           residence unless both individuals consent

1           in writing to 1 individual taking into ac-  
2           count the principal residence.

3           “(C) PRE-OCTOBER 13, 1987, INDEBTED-  
4           NESS.—In the case of any pre-October 13,  
5           1987, indebtedness, the term ‘qualified resi-  
6           dence’ has the meaning given that term in sec-  
7           tion 163(h)(4), as in effect on the day before  
8           the date of enactment of this subparagraph.

9           “(2) SPECIAL RULE FOR COOPERATIVE HOUS-  
10          ING CORPORATIONS.—Any indebtedness secured by  
11          stock held by the taxpayer as a tenant-stockholder in  
12          a cooperative housing corporation shall be treated as  
13          secured by the house or apartment which the tax-  
14          payer is entitled to occupy as such a tenant-stock-  
15          holder. If stock described in the preceding sentence  
16          may not be used to secure indebtedness, indebted-  
17          ness shall be treated as so secured if the taxpayer  
18          establishes to the satisfaction of the Secretary that  
19          such indebtedness was incurred to acquire such  
20          stock.

21          “(3) UNENFORCEABLE SECURITY INTERESTS.—  
22          Indebtedness shall not fail to be treated as secured  
23          by any property solely because, under any applicable  
24          State or local homestead or other debtor protection  
25          law in effect on August 16, 1986, the security inter-

1 est is ineffective or the enforceability of the security  
 2 interest is restricted.

3 “(4) SPECIAL RULES FOR ESTATES AND  
 4 TRUSTS.—For purposes of determining whether any  
 5 interest paid or accrued by an estate or trust is  
 6 qualified residence interest, any residence held by  
 7 such estate or trust shall be treated as a qualified  
 8 residence of such estate or trust if such estate or  
 9 trust establishes that such residence is a qualified  
 10 residence of a beneficiary who has a present interest  
 11 in such estate or trust or an interest in the resid-  
 12 uary of such estate or trust.

13 **“SEC. 5. DEFINITIONS AND SPECIAL RULES.**

14 “(a) DEFINITION OF SURVIVING SPOUSE.—

15 “(1) IN GENERAL.—For purposes of this part,  
 16 the term ‘surviving spouse’ means a taxpayer—

17 “(A) whose spouse died during either of  
 18 the taxpayer’s 2 taxable years immediately pre-  
 19 ceding the taxable year, and

20 “(B) who maintains as the taxpayer’s  
 21 home a household which constitutes for the tax-  
 22 able year the principal place of abode (as a  
 23 member of such household) of a dependent—

24 “(i) who (within the meaning of sec-  
 25 tion 6, determined without regard to sub-

1 sections (b)(1), (b)(2), and (d)(1)(B)) is a  
2 son, stepson, daughter, or stepdaughter of  
3 the taxpayer, and

4 “(ii) with respect to whom the tax-  
5 payer is entitled to a deduction for the tax-  
6 able year under section 2.

7 For purposes of this paragraph, an individual shall  
8 be considered as maintaining a household only if  
9 over one-half of the cost of maintaining the house-  
10 hold during the taxable year is furnished by such in-  
11 dividual.

12 “(2) LIMITATIONS.—Notwithstanding para-  
13 graph (1), for purposes of this part a taxpayer shall  
14 not be considered to be a surviving spouse—

15 “(A) if the taxpayer has remarried at any  
16 time before the close of the taxable year, or

17 “(B) unless, for the taxpayer’s taxable  
18 year during which the taxpayer’s spouse died, a  
19 joint return could have been made under the  
20 provisions of section 6013 (without regard to  
21 subsection (a)(3) thereof).

22 “(3) SPECIAL RULE WHERE DECEASED SPOUSE  
23 WAS IN MISSING STATUS.—If an individual was in a  
24 missing status (within the meaning of section  
25 6013(f)(3)) as a result of service in a combat zone

1 and if such individual remains in such status until  
 2 the date referred to in subparagraph (A) or (B),  
 3 then, for purposes of paragraph (1)(A), the date on  
 4 which such individual dies shall be treated as the  
 5 earlier of the date determined under subparagraph  
 6 (A) or the date determined under subparagraph (B):

7 “(A) The date on which the determination  
 8 is made under section 556 of title 37 of the  
 9 United States Code or under section 5566 of  
 10 title 5 of such Code (whichever is applicable)  
 11 that such individual died while in such missing  
 12 status.

13 “(B) Except in the case of the combat  
 14 zone designated for purposes of the Vietnam  
 15 conflict, the date which is 2 years after the date  
 16 designated as the date of termination of com-  
 17 batant activities in that zone.

18 “(b) DEFINITION OF HEAD OF HOUSEHOLD.—

19 “(1) IN GENERAL.—For purposes of this part,  
 20 an individual shall be considered a head of a house-  
 21 hold if, and only if, such individual is not married  
 22 at the close of such individual’s taxable year, is not  
 23 a surviving spouse (as defined in subsection (a)),  
 24 and either—

1           “(A) maintains as such individual’s home a  
 2 household which constitutes for more than one-  
 3 half of such taxable year the principal place of  
 4 abode, as a member of such household, of—

5           “(i) a qualifying child of the indi-  
 6 vidual (as defined in section 6(c), deter-  
 7 mined without regard to section 6(e)), but  
 8 not if such child—

9           “(I) is married at the close of the  
 10 taxpayer’s taxable year, and

11           “(II) is not a dependent of such  
 12 individual by reason of section 6(b)(2)  
 13 or 6(b)(3), or both, or

14           “(ii) any other person who is a de-  
 15 pendent of the taxpayer, if the taxpayer is  
 16 entitled to a deduction for the taxable year  
 17 for such person under section 2, or

18           “(B) maintains a household which con-  
 19 stitutes for such taxable year the principal place  
 20 of abode of the father or mother of the tax-  
 21 payer, if the taxpayer is entitled to a deduction  
 22 for the taxable year for such father or mother  
 23 under section 2.

24       For purposes of this paragraph, an individual shall  
 25       be considered as maintaining a household only if



1 over one-half of the cost of maintaining the house-  
2 hold during the taxable year is furnished by such in-  
3 dividual.

4 “(2) DETERMINATION OF STATUS.—For pur-  
5 poses of this subsection—

6 “(A) an individual who is legally separated  
7 from such individual’s spouse under a decree of  
8 divorce or of separate maintenance shall not be  
9 considered as married,

10 “(B) a taxpayer shall be considered as not  
11 married at the close of such taxpayer’s taxable  
12 year if at any time during the taxable year such  
13 taxpayer’s spouse is a nonresident alien, and

14 “(C) a taxpayer shall be considered as  
15 married at the close of such taxpayer’s taxable  
16 year if such taxpayer’s spouse (other than a  
17 spouse described in subparagraph (B)) died  
18 during the taxable year.

19 “(3) LIMITATIONS.—Notwithstanding para-  
20 graph (1), for purposes of this part, a taxpayer shall  
21 not be considered to be a head of a household—

22 “(A) if at any time during the taxable year  
23 the taxpayer is a nonresident alien, or

1 “(B) by reason of an individual who would  
 2 not be a dependent for the taxable year but  
 3 for—

4 “(i) subparagraph (H) of section  
 5 6(d)(2), or

6 “(ii) paragraph (3) of section 6(d).

7 “(c) CERTAIN MARRIED INDIVIDUALS LIVING  
 8 APART.—For purposes of this part, an individual shall be  
 9 treated as not married at the close of the taxable year  
 10 if such individual is so treated under the provisions of sec-  
 11 tion 7703(b).

12 **“SEC. 6. DEPENDENT DEFINED.**

13 “(a) IN GENERAL.—For purposes of this subtitle, the  
 14 term ‘dependent’ means—

15 “(1) a qualifying child, or

16 “(2) a qualifying relative.

17 “(b) EXCEPTIONS.—For purposes of this section—

18 “(1) DEPENDENTS INELIGIBLE.—If an indi-  
 19 vidual is a dependent of a taxpayer for any taxable  
 20 year of such taxpayer beginning in a calendar year,  
 21 such individual shall be treated as having no depend-  
 22 ents for any taxable year of such individual begin-  
 23 ning in such calendar year.

24 “(2) MARRIED DEPENDENTS.—An individual  
 25 shall not be treated as a dependent of a taxpayer

1 under subsection (a) if such individual has made a  
 2 joint return with the individual's spouse under sec-  
 3 tion 6013 for the taxable year beginning in the cal-  
 4 endar year in which the taxable year of the taxpayer  
 5 begins.

6 “(3) CITIZENS OR NATIONALS OF OTHER COUN-  
 7 TRIES.—

8 “(A) IN GENERAL.—The term ‘dependent’  
 9 does not include an individual who is not a cit-  
 10 izen or national of the United States unless  
 11 such individual is a resident of the United  
 12 States or a country contiguous to the United  
 13 States.

14 “(B) EXCEPTION FOR ADOPTED CHILD.—  
 15 Subparagraph (A) shall not exclude any child of  
 16 a taxpayer (within the meaning of subsection  
 17 (f)(1)(B)) from the definition of ‘dependent’  
 18 if—

19 “(i) for the taxable year of the tax-  
 20 payer, the child has the same principal  
 21 place of abode as the taxpayer and is a  
 22 member of the taxpayer's household, and

23 “(ii) the taxpayer is a citizen or na-  
 24 tional of the United States.

1       “(c) QUALIFYING CHILD.—For purposes of this sec-  
2 tion—

3               “(1) IN GENERAL.—The term ‘qualifying child’  
4 means, with respect to any taxpayer for any taxable  
5 year, an individual—

6                       “(A) who bears a relationship to the tax-  
7 payer described in paragraph (2),

8                       “(B) who has the same principal place of  
9 abode as the taxpayer for more than one-half of  
10 such taxable year,

11                      “(C) who meets the age requirements of  
12 paragraph (3), and

13                      “(D) who has not provided over one-half of  
14 such individual’s own support for the calendar  
15 year in which the taxable year of the taxpayer  
16 begins.

17               “(2) RELATIONSHIP.—For purposes of para-  
18 graph (1)(A), an individual bears a relationship to  
19 the taxpayer described in this paragraph if such in-  
20 dividual is—

21                      “(A) a child of the taxpayer or a descend-  
22 ant of such a child, or

23                      “(B) a brother, sister, stepbrother, or step-  
24 sister of the taxpayer or a descendant of any  
25 such relative.

1 “(3) AGE REQUIREMENTS.—

2 “(A) IN GENERAL.—For purposes of para-  
3 graph (1)(C), an individual meets the require-  
4 ments of this paragraph if such individual—

5 “(i) has not attained the age of 19 as  
6 of the close of the calendar year in which  
7 the taxable year of the taxpayer begins, or

8 “(ii) is a student who has not attained  
9 the age of 24 as of the close of such cal-  
10 endar year.

11 “(B) SPECIAL RULE FOR DISABLED.—In  
12 the case of an individual who is permanently  
13 and totally disabled at any time during such  
14 calendar year, the requirements of subpara-  
15 graph (A) shall be treated as met with respect  
16 to such individual.

17 “(4) SPECIAL RULE RELATING TO 2 OR MORE  
18 CLAIMING QUALIFYING CHILD.—

19 “(A) IN GENERAL.—Except as provided in  
20 subparagraph (B), if (but for this paragraph)  
21 an individual may be and is claimed as a quali-  
22 fying child by 2 or more taxpayers for a taxable  
23 year beginning in the same calendar year, such  
24 individual shall be treated as the qualifying  
25 child of the taxpayer who is—

1 “(i) a parent of the individual, or

2 “(ii) if clause (i) does not apply, the  
3 taxpayer with the highest adjusted gross  
4 income for such taxable year.

5 “(B) MORE THAN 1 PARENT CLAIMING  
6 QUALIFYING CHILD.—If the parents claiming  
7 any qualifying child do not file a joint return  
8 together, such child shall be treated as the  
9 qualifying child of—

10 “(i) the parent with whom the child  
11 resided for the longest period of time dur-  
12 ing the taxable year, or

13 “(ii) if the child resides with both par-  
14 ents for the same amount of time during  
15 such taxable year, the parent with the  
16 highest adjusted gross income.

17 “(d) QUALIFYING RELATIVE.—For purposes of this  
18 section—

19 “(1) IN GENERAL.—The term ‘qualifying rel-  
20 ative’ means, with respect to any taxpayer for any  
21 taxable year, an individual—

22 “(A) who bears a relationship to the tax-  
23 payer described in paragraph (2),

24 “(B) with respect to whom the taxpayer  
25 provides over one-half of the individual’s sup-

1 port for the calendar year in which such taxable  
 2 year begins, and

3 “(C) who is not a qualifying child of such  
 4 taxpayer or of any other taxpayer for any tax-  
 5 able year beginning in the calendar year in  
 6 which such taxable year begins.

7 “(2) RELATIONSHIP.—For purposes of para-  
 8 graph (1)(A), an individual bears a relationship to  
 9 the taxpayer described in this paragraph if the indi-  
 10 vidual is any of the following with respect to the tax-  
 11 payer:

12 “(A) A child or a descendant of a child.

13 “(B) A brother, sister, stepbrother, or  
 14 stepsister.

15 “(C) The father or mother, or an ancestor  
 16 of either.

17 “(D) A stepfather or stepmother.

18 “(E) A son or daughter of a brother or sis-  
 19 ter of the taxpayer.

20 “(F) A brother or sister of the father or  
 21 mother of the taxpayer.

22 “(G) A son-in-law, daughter-in-law, father-  
 23 in-law, mother-in-law, brother-in-law, or sister-  
 24 in-law.

1           “(H) An individual (other than an indi-  
2           vidual who at any time during the taxable year  
3           was the spouse, determined without regard to  
4           section 7703, of the taxpayer) who, for the tax-  
5           able year of the taxpayer, has the same prin-  
6           cipal place of abode as the taxpayer and is a  
7           member of the taxpayer’s household.

8           “(3) SPECIAL RULE RELATING TO MULTIPLE  
9           SUPPORT AGREEMENTS.—For purposes of paragraph  
10          (1)(C), over one-half of the support of an individual  
11          for a calendar year shall be treated as received from  
12          the taxpayer if—

13               “(A) no one person contributed over one-  
14               half of such support,

15               “(B) over one-half of such support was re-  
16               ceived from 2 or more persons each of whom,  
17               but for the fact that any such person alone did  
18               not contribute over one-half of such support,  
19               would have been entitled to claim such indi-  
20               vidual as a dependent for a taxable year begin-  
21               ning in such calendar year,

22               “(C) the taxpayer contributed over 10 per-  
23               cent of such support, and

24               “(D) each person described in subpara-  
25               graph (B) (other than the taxpayer) who con-



1           tributed over 10 percent of such support files a  
 2           written declaration (in such manner and form  
 3           as the Secretary may by regulations prescribe)  
 4           that such person will not claim such individual  
 5           as a dependent for any taxable year beginning  
 6           in such calendar year.

7           “(4) SPECIAL RULE RELATING TO INCOME OF  
 8       HANDICAPPED DEPENDENTS.—

9           “(A) IN GENERAL.—For purposes of para-  
 10          graph (1)(B), the gross income of an individual  
 11          who is permanently and totally disabled at any  
 12          time during the taxable year shall not include  
 13          income attributable to services performed by the  
 14          individual at a sheltered workshop if—

15               “(i) the availability of medical care at  
 16               such workshop is the principal reason for  
 17               the individual’s presence there, and

18               “(ii) the income arises solely from ac-  
 19               tivities at such workshop which are inci-  
 20               dent to such medical care.

21           “(B) SHELTERED WORKSHOP DEFINED.—  
 22          For purposes of subparagraph (A), the term  
 23          ‘sheltered workshop’ means a school—

1 “(i) which provides special instruction  
 2 or training designed to alleviate the dis-  
 3 ability of the individual, and

4 “(ii) which is operated by an organi-  
 5 zation described in section 501(c)(3) and  
 6 exempt from tax under section 501(a), or  
 7 by a State, a possession of the United  
 8 States, any political subdivision of any of  
 9 the foregoing, the United States, or the  
 10 District of Columbia.

11 “(5) SPECIAL RULES FOR SUPPORT.—For pur-  
 12 poses of this subsection—

13 “(A) payments to a spouse which are in-  
 14 cludible in the gross income of such spouse  
 15 shall not be treated as a payment by the payor  
 16 spouse for the support of any dependent, and

17 “(B) in the case of the remarriage of a  
 18 parent, support of a child received from the  
 19 parent’s spouse shall be treated as received  
 20 from the parent.

21 “(e) SPECIAL RULE FOR DIVORCED PARENTS.—

22 “(1) IN GENERAL.—Notwithstanding subsection  
 23 (c)(1)(B), (c)(4), or (d)(1)(C), if—

1           “(A) a child receives over one-half of the  
2           child’s support during the calendar year from  
3           the child’s parents—

4                   “(i) who are divorced or legally sepa-  
5                   rated under a decree of divorce or separate  
6                   maintenance,

7                   “(ii) who are separated under a writ-  
8                   ten separation agreement, or

9                   “(iii) who live apart at all times dur-  
10                  ing the last 6 months of the calendar year,  
11                  and

12               “(B) such child is in the custody of 1 or  
13               both of the child’s parents for more than one-  
14               half of the calendar year, such child shall be  
15               treated as being the qualifying child or quali-  
16               fying relative of the noncustodial parent for a  
17               calendar year if the requirements described in  
18               paragraph (2) or (3) are met.

19               “(2) EXCEPTION WHERE CUSTODIAL PARENT  
20               RELEASES CLAIM TO EXEMPTION FOR THE YEAR.—  
21               For purposes of paragraph (1), the requirements de-  
22               scribed in this paragraph are met with respect to  
23               any calendar year if—

24                   “(A) the custodial parent signs a written  
25                   declaration (in such manner and form as the

1 Secretary may by regulations prescribe) that  
 2 such custodial parent will not claim such child  
 3 as a dependent for any taxable year beginning  
 4 in such calendar year, and

5 “(B) the noncustodial parent attaches such  
 6 written declaration to the noncustodial parent’s  
 7 return for the taxable year beginning during  
 8 such calendar year.

9 “(3) EXCEPTION FOR CERTAIN PRE-1985 IN-  
 10 STRUMENTS.—

11 “(A) IN GENERAL.—For purposes of para-  
 12 graph (1), the requirements described in this  
 13 paragraph are met with respect to any calendar  
 14 year if—

15 “(i) a qualified pre-1985 instrument  
 16 between the parents applicable to the tax-  
 17 able year beginning in such calendar year  
 18 provides that the noncustodial parent shall  
 19 be entitled to any deduction allowable  
 20 under section 151 for such child, and

21 “(ii) the noncustodial parent provides  
 22 at least \$600 for the support of such child  
 23 during such calendar year.

24 For purposes of this subparagraph, amounts ex-  
 25 pended for the support of a child or children

1 shall be treated as received from the noncusto-  
 2 dial parent to the extent that such parent pro-  
 3 vided amounts for such support.

4 “(B) QUALIFIED PRE-1985 INSTRUMENT.—  
 5 For purposes of this paragraph, the term  
 6 ‘qualified pre-1985 instrument’ means any de-  
 7 cree of divorce or separate maintenance or writ-  
 8 ten agreement—

9 “(i) which is executed before January  
 10 1, 1985,

11 “(ii) which on such date contains the  
 12 provision described in subparagraph (A)(i),  
 13 and

14 “(iii) which is not modified on or after  
 15 such date in a modification which expressly  
 16 provides that this paragraph shall not  
 17 apply to such decree or agreement.

18 “(4) CUSTODIAL PARENT AND NONCUSTODIAL  
 19 PARENT.—For purposes of this subsection—

20 “(A) CUSTODIAL PARENT.—The term ‘cus-  
 21 todial parent’ means the parent having custody  
 22 for the greater portion of the calendar year.

23 “(B) NONCUSTODIAL PARENT.—The term  
 24 ‘noncustodial parent’ means the parent who is  
 25 not the custodial parent.

1           “(5) EXCEPTION FOR MULTIPLE-SUPPORT  
2 AGREEMENTS.—This subsection shall not apply in  
3 any case where over one-half of the support of the  
4 child is treated as having been received from a tax-  
5 payer under the provision of subsection (d)(3).

6           “(6) SPECIAL RULE FOR SUPPORT RECEIVED  
7 FROM NEW SPOUSE OF PARENT.—For purposes of  
8 this subsection, in the case of the remarriage of a  
9 parent, support of a child received from the parent’s  
10 spouse shall be treated as received from the parent.

11          “(f) OTHER DEFINITIONS AND RULES.—For pur-  
12 poses of this section—

13           “(1) CHILD DEFINED.—

14           “(A) IN GENERAL.—The term ‘child’  
15 means an individual who is—

16           “(i) a son, daughter, stepson, or step-  
17 daughter of the taxpayer, or

18           “(ii) an eligible foster child of the tax-  
19 payer.

20           “(B) ADOPTED CHILD.—In determining  
21 whether any of the relationships specified in  
22 subparagraph (A)(i) or paragraph (4) exists, a  
23 legally adopted individual of the taxpayer, or an  
24 individual who is lawfully placed with the tax-  
25 payer for legal adoption by the taxpayer, shall

1 be treated as a child of such individual by  
2 blood.

3 “(C) ELIGIBLE FOSTER CHILD.—For pur-  
4 poses of subparagraph (A)(ii), the term ‘eligible  
5 foster child’ means an individual who is placed  
6 with the taxpayer by an authorized placement  
7 agency or by judgment, decree, or other order  
8 of any court of competent jurisdiction.

9 “(2) STUDENT DEFINED.—The term ‘student’  
10 means an individual who during each of 5 calendar  
11 months during the calendar year in which the tax-  
12 able year of the taxpayer begins—

13 “(A) is a full-time student at an edu-  
14 cational organization described in section  
15 3(d)(1)(B), or

16 “(B) is pursuing a full-time course of insti-  
17 tutional on-farm training under the supervision  
18 of an accredited agent of an educational organi-  
19 zation described in section 3(d)(1)(B) or of a  
20 State or political subdivision of a State.

21 “(3) DETERMINATION OF HOUSEHOLD STA-  
22 TUS.—An individual shall not be treated as a mem-  
23 ber of the taxpayer’s household if at any time during  
24 the taxable year of the taxpayer the relationship be-

1       tween such individual and the taxpayer is in viola-  
2       tion of local law.

3           “(4) BROTHER AND SISTER.—The terms  
4       ‘brother’ and ‘sister’ include a brother or sister by  
5       the half blood.

6           “(5) SPECIAL SUPPORT TEST IN CASE OF STU-  
7       DENTS.—For purposes of subsections (c)(1)(D) and  
8       (d)(1)(C), in the case of an individual who is—

9           “(A) a child of the taxpayer, and

10          “(B) a student, amounts received as schol-  
11       arships for study at an educational organization  
12       described in section 3(d)(1)(B) shall not be  
13       taken into account.

14          “(6) TREATMENT OF MISSING CHILDREN.—

15          “(A) IN GENERAL.—Solely for the pur-  
16       poses referred to in subparagraph (B), a child  
17       of the taxpayer—

18           “(i) who is presumed by law enforce-  
19       ment authorities to have been kidnaped by  
20       someone who is not a member of the fam-  
21       ily of such child or the taxpayer, and

22           “(ii) who had, for the taxable year in  
23       which the kidnaping occurred, the same  
24       principal place of abode as the taxpayer for  
25       more than one-half of the portion of such



1 year before the date of the kidnaping, shall  
2 be treated as meeting the requirement of  
3 subsection (c)(1)(B) with respect to a tax-  
4 payer for all taxable years ending during  
5 the period that the child is kidnaped.

6 “(B) PURPOSES.—Subparagraph (A) shall  
7 apply solely for purposes of determining—

8 “(i) the deduction under section 2(c),  
9 and

10 “(ii) whether an individual is a sur-  
11 viving spouse or a head of a household (as  
12 such terms are defined in section 5).

13 “(C) COMPARABLE TREATMENT OF CER-  
14 TAIN QUALIFYING RELATIVES.—For purposes  
15 of this section, a child of the taxpayer—

16 “(i) who is presumed by law enforce-  
17 ment authorities to have been kidnaped by  
18 someone who is not a member of the fam-  
19 ily of such child or the taxpayer, and

20 “(ii) who was (without regard to this  
21 paragraph) a qualifying relative of the tax-  
22 payer for the portion of the taxable year  
23 before the date of the kidnaping, shall be  
24 treated as a qualifying relative of the tax-

1                   payer for all taxable years ending during  
2                   the period that the child is kidnaped.

3                   “(D) TERMINATION OF TREATMENT.—  
4                   Subparagraphs (A) and (C) shall cease to apply  
5                   as of the first taxable year of the taxpayer be-  
6                   ginning after the calendar year in which there  
7                   is a determination that the child is dead (or, if  
8                   earlier, in which the child would have attained  
9                   age 18).

10   **“SEC. 7. INFLATION ADJUSTMENT.**

11           “(a) IN GENERAL.—In the case of any taxable year  
12 beginning in a calendar year after 2010, each dollar  
13 amount contained in sections 2(b), 2(c), 3(a), and 4(c)(2)  
14 shall be increased by an amount equal to—

15                   “(1) such dollar amount, multiplied by

16                   “(2) the cost-of-living adjustment for the cal-  
17 endar year in which the taxable year begins.

18           “(b) COST-OF-LIVING ADJUSTMENT.—For purposes  
19 of subsection (a), the cost-of-living adjustment for any cal-  
20 endar year is the percentage (if any) by which—

21                   “(1) the CPI for the preceding calendar year,  
22 exceeds

23                   “(2) the CPI for calendar year 2009.

24           “(c) CPI FOR ANY CALENDAR YEAR.—For purposes  
25 of subsection (b), the CPI for any calendar year is the

1 average of the Consumer Price Index as of the close of  
 2 the 12-month period ending on August 31 of such cal-  
 3 endar year.

4 “(d) CONSUMER PRICE INDEX.—For purposes of  
 5 subsection (c), the term ‘Consumer Price Index’ means the  
 6 last Consumer Price Index for all-urban consumers pub-  
 7 lished by the Department of Labor. For purposes of the  
 8 preceding sentence, the revision of the Consumer Price  
 9 Index which is most consistent with the Consumer Price  
 10 Index for calendar year 1986 shall be used.

11 “(e) ROUNDING.—If any increase determined under  
 12 subsection (a) is not a multiple of \$50, such amount shall  
 13 be rounded to the next lowest multiple of \$50.

14 **“PART II—TAX ON BUSINESS ACTIVITIES**

“Sec. 11. Tax imposed on business activities.

15 **“SEC. 11. TAX IMPOSED ON BUSINESS ACTIVITIES.**

16 “(a) TAX IMPOSED.—There is hereby imposed on  
 17 every person engaged in a business activity located in the  
 18 United States a tax equal to 20 percent of the business  
 19 taxable income of such person.

20 “(b) LIABILITY FOR TAX.—The tax imposed by this  
 21 section shall be paid by the person engaged in the business  
 22 activity, whether such person is an individual, partnership,  
 23 corporation, or otherwise.

24 “(c) BUSINESS TAXABLE INCOME.—

1           “(1) IN GENERAL.—For purposes of this sec-  
 2           tion, the term ‘business taxable income’ means gross  
 3           active income reduced by the deductions specified in  
 4           subsection (d).

5           “(2) GROSS ACTIVE INCOME.—For purposes of  
 6           paragraph (1), the term ‘gross active income’ means  
 7           gross income other than investment income.

8           “(d) DEDUCTIONS.—

9           “(1) IN GENERAL.—The deductions specified in  
 10          this subsection are—

11               “(A) the cost of business inputs for the  
 12               business activity,

13               “(B) the compensation (including contribu-  
 14               tions to qualified retirement plans but not in-  
 15               cluding other fringe benefits) paid for employ-  
 16               ees performing services in such activity, and

17               “(C) the cost of personal and real property  
 18               used in such activity.

19           “(2) BUSINESS INPUTS.—

20               “(A) IN GENERAL.—For purposes of para-  
 21               graph (1)(A), the term ‘cost of business inputs’  
 22               means—

23                       “(i) the actual cost of goods, services,  
 24                       and materials, whether or not resold dur-  
 25                       ing the taxable year, and

1                   “(ii) the actual cost, if reasonable, of  
2                   travel and entertainment expenses for busi-  
3                   ness purposes.

4                   “(B) PURCHASES OF GOODS AND SERV-  
5                   ICES EXCLUDED.—Such term shall not include  
6                   purchases of goods and services provided to em-  
7                   ployees or owners.

8                   “(C) CERTAIN LOBBYING AND POLITICAL  
9                   EXPENDITURES EXCLUDED.—

10                   “(i) IN GENERAL.—Such term shall  
11                   not include any amount paid or incurred in  
12                   connection with—

13                   “(I) influencing legislation,

14                   “(II) participation in, or inter-  
15                   vention in, any political campaign on  
16                   behalf of (or in opposition to) any  
17                   candidate for public office,

18                   “(III) any attempt to influence  
19                   the general public, or segments there-  
20                   of, with respect to elections, legislative  
21                   matters, or referendums, or

22                   “(IV) any direct communication  
23                   with a covered executive branch offi-  
24                   cial in an attempt to influence the of-

1           ficial actions or positions of such offi-  
2           cial.

3           “(ii) EXCEPTION FOR LOCAL LEGISLA-  
4           TION.—In the case of any legislation of  
5           any local council or similar governing  
6           body—

7                     “(I) clause (i)(I) shall not apply,  
8                     and

9                     “(II) such term shall include all  
10           ordinary and necessary expenses (in-  
11           cluding, but not limited to, traveling  
12           expenses described in subparagraph  
13           (A)(iii) and the cost of preparing tes-  
14           timony) paid or incurred during the  
15           taxable year in carrying on any trade  
16           or business—

17                    “(aa) in direct connection  
18           with appearances before, submis-  
19           sion of statements to, or sending  
20           communications to the commit-  
21           tees, or individual members, of  
22           such council or body with respect  
23           to legislation or proposed legisla-  
24           tion of direct interest to the tax-  
25           payer, or

1           “(bb) in direct connection  
2           with communication of informa-  
3           tion between the taxpayer and an  
4           organization of which the tax-  
5           payer is a member with respect  
6           to any such legislation or pro-  
7           posed legislation which is of di-  
8           rect interest to the taxpayer and  
9           to such organization, and that  
10          portion of the dues so paid or in-  
11          curred with respect to any orga-  
12          nization of which the taxpayer is  
13          a member which is attributable  
14          to the expenses of the activities  
15          carried on by such organization.

16           “(iii) APPLICATION TO DUES OF TAX-  
17          EXEMPT ORGANIZATIONS.—Such term  
18          shall include the portion of dues or other  
19          similar amounts paid by the taxpayer to an  
20          organization which is exempt from tax  
21          under this subtitle which the organization  
22          notifies the taxpayer under section  
23          6033(e)(1)(A)(ii) is allocable to expendi-  
24          tures to which clause (i) applies.

1 “(iv) INFLUENCING LEGISLATION.—

2 For purposes of this subparagraph—

3 “(I) IN GENERAL.—The term ‘in-  
4 fluencing legislation’ means any at-  
5 tempt to influence any legislation  
6 through communication with any  
7 member or employee of a legislative  
8 body, or with any government official  
9 or employee who may participate in  
10 the formulation of legislation.

11 “(II) LEGISLATION.—The term  
12 ‘legislation’ has the meaning given  
13 that term in section 4911(e)(2).

14 “(v) OTHER SPECIAL RULES.—

15 “(I) EXCEPTION FOR CERTAIN  
16 TAXPAYERS.—In the case of any tax-  
17 payer engaged in the trade or busi-  
18 ness of conducting activities described  
19 in clause (i), clause (i) shall not apply  
20 to expenditures of the taxpayer in  
21 conducting such activities directly on  
22 behalf of another person (but shall  
23 apply to payments by such other per-  
24 son to the taxpayer for conducting  
25 such activities).



1 “(II) DE MINIMIS EXCEPTION.—

2 “(aa) IN GENERAL.—Clause  
3 (i) shall not apply to any in-  
4 house expenditures for any tax-  
5 able year if such expenditures do  
6 not exceed \$2,000. In deter-  
7 mining whether a taxpayer ex-  
8 ceeds the \$2,000 limit, there  
9 shall not be taken into account  
10 overhead costs otherwise allocable  
11 to activities described in sub-  
12 clauses (I) and (IV) of clause (i).

13 “(bb) IN-HOUSE EXPENDI-  
14 TURES.—For purposes of provi-  
15 sion (aa), the term ‘in-house ex-  
16 penditures’ means expenditures  
17 described in subclauses (I) and  
18 (IV) of clause (i) other than pay-  
19 ments by the taxpayer to a per-  
20 son engaged in the trade or busi-  
21 ness of conducting activities de-  
22 scribed in clause (i) for the con-  
23 duct of such activities on behalf  
24 of the taxpayer, or dues or other  
25 similar amounts paid or incurred

1 by the taxpayer which are allo-  
 2 cable to activities described in  
 3 clause (i).

4 “(III) EXPENSES INCURRED IN  
 5 CONNECTION WITH LOBBYING AND  
 6 POLITICAL ACTIVITIES.—Any amount  
 7 paid or incurred for research for, or  
 8 preparation, planning, or coordination  
 9 of, any activity described in clause (i)  
 10 shall be treated as paid or incurred in  
 11 connection with such activity.

12 “(vi) COVERED EXECUTIVE BRANCH  
 13 OFFICIAL.—For purposes of this subpara-  
 14 graph, the term ‘covered executive branch  
 15 official’ means—

16 “(I) the President,

17 “(II) the Vice President,

18 “(III) any officer or employee of  
 19 the White House Office of the Execu-  
 20 tive Office of the President, and the 2  
 21 most senior level officers of each of  
 22 the other agencies in such Executive  
 23 Office, and

24 “(IV) any individual serving in a  
 25 position in level I of the Executive

1                   Schedule under section 5312 of title  
 2                   5, United States Code, any other indi-  
 3                   vidual designated by the President as  
 4                   having Cabinet level status, and any  
 5                   immediate deputy of such an indi-  
 6                   vidual.

7                   “(vii) SPECIAL RULE FOR INDIAN  
 8                   TRIBAL GOVERNMENTS.—For purposes of  
 9                   this subparagraph, an Indian tribal gov-  
 10                  ernment shall be treated in the same man-  
 11                  ner as a local council or similar governing  
 12                  body.

13                  “(viii) CROSS REFERENCE.—

“For reporting requirements and alternative taxes related to this subsection, see  
 section 6033(e).

14                  “(e) CARRYOVER OF EXCESS DEDUCTIONS.—

15                  “(1) IN GENERAL.—If the aggregate deductions  
 16                  for any taxable year exceed the gross active income  
 17                  for such taxable year, the amount of the deductions  
 18                  specified in subsection (d) for the succeeding taxable  
 19                  year (determined without regard to this subsection)  
 20                  shall be increased by the sum of—

21                  “(A) such excess, plus

22                  “(B) the product of such excess and the 3-  
 23                  month Treasury rate for the last month of such  
 24                  taxable year.

1           “(2) 3-MONTH TREASURY RATE.—For purposes  
 2           of paragraph (1), the 3-month Treasury rate is the  
 3           rate determined by the Secretary based on the aver-  
 4           age market yield (during any 1-month period se-  
 5           lected by the Secretary and ending in the calendar  
 6           month in which the determination is made) on out-  
 7           standing marketable obligations of the United States  
 8           with remaining periods to maturity of 3 months or  
 9           less.”

10          (b) CONFORMING REPEALS AND REDESIGNATIONS.—

11           (1) REPEALS.—The following subchapters of  
 12           chapter 1 of subtitle A and the items relating to  
 13           such subchapters in the table of subchapters for  
 14           such chapter 1 are repealed:

15                   (A) Subchapter B (relating to computation  
 16                   of taxable income).

17                   (B) Subchapter C (relating to corporate  
 18                   distributions and adjustments).

19                   (C) Subchapter D (relating to deferred  
 20                   compensation, etc.).

21                   (D) Subchapter G (relating to corporations  
 22                   used to avoid income tax on shareholders).

23                   (E) Subchapter H (relating to banking in-  
 24                   stitutions).

1 (F) Subchapter I (relating to natural re-  
2 sources).

3 (G) Subchapter J (relating to estates,  
4 trusts, beneficiaries, and decedents).

5 (H) Subchapter L (relating to insurance  
6 companies).

7 (I) Subchapter M (relating to regulated in-  
8 vestment companies and real estate investment  
9 trusts).

10 (J) Subchapter N (relating to tax based on  
11 income from sources within or without the  
12 United States).

13 (K) Subchapter O (relating to gain or loss  
14 on disposition of property).

15 (L) Subchapter P (relating to capital gains  
16 and losses).

17 (M) Subchapter Q (relating to readjust-  
18 ment of tax between years and special limita-  
19 tions).

20 (N) Subchapter S (relating to tax treat-  
21 ment of S corporations and their shareholders).

22 (O) Subchapter T (relating to cooperatives  
23 and their patrons).

24 (P) Subchapter U (relating to designation  
25 and treatment of empowerment zones, enter-

1           prise communities, and rural development in-  
2           vestment areas).

3           (Q) Subchapter V (relating to title 11  
4           cases).

5           (R) Subchapter W (relating to District of  
6           Columbia Enterprise Zone).

7           (2) REDESIGNATIONS.—The following sub-  
8           chapters of chapter 1 of subtitle A and the items re-  
9           lating to such subchapters in the table of sub-  
10          chapters for such chapter 1 are redesignated:

11           (A) Subchapter E (relating to accounting  
12           periods and methods of accounting) as sub-  
13           chapter B.

14           (B) Subchapter F (relating to exempt or-  
15           ganizations) as subchapter C.

16           (C) Subchapter K (relating to partners  
17           and partnerships) as subchapter D.

18 **SEC. 3. REPEAL OF ESTATE AND GIFT TAXES.**

19          Subtitle B (relating to estate, gift, and generation-  
20          skipping taxes) and the item relating to such subtitle in  
21          the table of subtitles is repealed.

22 **SEC. 4. ADDITIONAL REPEALS.**

23          Subtitles H (relating to financing of presidential elec-  
24          tion campaigns) and J (relating to coal industry health

1 benefits) and the items relating to such subtitles in the  
2 table of subtitles are repealed.

3 **SEC. 5. EFFECTIVE DATES.**

4 (a) IN GENERAL.—Except as provided in subsection  
5 (b), the amendments made by this Act apply to taxable  
6 years beginning after December 31, 2009.

7 (b) REPEAL OF ESTATE AND GIFT TAXES.—The re-  
8 peal made by section 3 applies to estates of decedents  
9 dying, and transfers made, after December 31, 2009.

10 (c) TECHNICAL AND CONFORMING CHANGES.—The  
11 Secretary of the Treasury or the Secretary's delegate  
12 shall, as soon as practicable but in any event not later  
13 than 90 days after the date of enactment of this Act, sub-  
14 mit to the Committee on Ways and Means of the House  
15 of Representatives and the Committee on Finance of the  
16 Senate a draft of any technical and conforming changes  
17 in the Internal Revenue Code of 1986 which are necessary  
18 to reflect throughout such Code the changes in the sub-  
19 stantive provisions of law made by this Act.

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